Re: IB2.1

The Atmospheric Fund

CITY OF TORONTO INVESTMENT POLICY:

EMBRACING BEST PRACTICES, MINIMIZING DOWNSIDE CLIMATE RISK, AND MAXIMIZING UPSIDE VALUE FROM CLIMATE SOLUTIONS

THE ATMOSPHERIC FUND

April 2019

WHO ARE WE?

Founded in 1991, The Atmospheric Fund (TAF) invests in urban climate solutions in the Greater Toronto and Hamilton Area to reduce carbon emissions and air pollution.

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FIVE ROLES TO ADVANCE LOW-CARBON SOLUTIONS:

1. Grantmaker
2. Impact investor
3. Alliance builder
4. Policy advocate
5. Demonstration project developer

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PROACTIVE OPPORTUNITY

- ✓ Avoid climate/carbon risks and underperforming FF investments
- ✓ Reap value in low-carbon opportunities, aligned with the City's climate protection goals
- ✓ Leverage international best practices and leadership of 1000+ institutions and cities

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INVESTMENT BELIEFS TO SET THE TONE

- Value of avoiding climate/carbon-related risk
- Opportunity to reap the financial value of investing in a low-carbon economy
- Alignment with Paris Agreement and Toronto’s climate objectives
- Commitment to TCFD recommendations

Investment Beliefs – TAF SIOP example

"Section 4.2: 'Green' investing, including consideration of environmental, social and governance factors, is expected to improve the risk/return profile of portfolios in the coming decades, and will allow TAF to use the full weight of its fund towards its mandate. Rather than prohibiting investments in companies whose policies and climate risk profiles may not be in accord with TAF's mandate, TAF can serve its mandate by investing as permitted under the Trustee Act in a way that helps stabilize the concentration of greenhouse gases in the atmosphere, improves local air quality and offers revenue generation.

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Investment Beliefs -- Mercer example

“Mercer DSE recognises that limiting global average temperature increases this century to “well below two degrees Celsius”, as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors.”

“Mercer believes a sustainable investment approach is more likely to create and preserve long-term investment capital and more specifically that:

1. **ESG factors** can have a material impact on long-term risk and return outcomes, and these should be integrated into the investment process.

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Investment Beliefs -- Mercer example cont.

2. **Taking a broader and longer-term perspective on risk**, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
3. **Climate change poses a systemic risk**, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
4. **Stewardship** (or active ownership) supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Consequently, we believe that a sustainable investment approach that considers these risks and opportunities is in the best interests of our clients."

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Source: https://www.mercer.com/our-thinking/wealth/mercer-investments-beliefs.html

Environment, Social and Governance Integration

- Avoid ESG ‘greenwashing’
- PRI signatory inadequate threshold for ESG competence
- ‘Best-in-class screening’ and simply exclusions are inadequate approaches
- Mercer: evidence and high expectations for positive momentum on ESG integration + exposure to environmental and social themes and trends likely to lead to improved risk management and new investment opportunities.

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ESG POLICIES FROM SOME PENSION FUNDS

- CDPQ investment strategy to address climate change and achieve a lower carbon portfolio.
- BCI ESG Integration Fact Sheet here.
- Teachers 4-pillar approach to managing potential significant climate change risks to their portfolio here.
- OPTrust outlines ESG considerations in their SIPP
- And over 700 institutional investors

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ESG POLICIES FROM SOME CITIES

- **Boston** https://www.boston.gov/news/mayor-walsh-commits-sustainable-activist-investment-policy-city-boston
- **Vancouver** https://council.vancouver.ca/20160503/documents/a8.pdf
- **San Francisco** https://sftreasurer.org/sites/default/files/Investment%20Policy%20September%202017%20Final.pdf
- **Seattle** https://www.seattle.gov/Documents/Departments/Retirement/Board/Governance%20docs/ESGPolicyJune2016.pdf
- **Sydney** https://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0011/136496/Investment-Policy-October-2018.pdf
- **New York** https://www1.nyc.gov/office-of-the-mayor/news/022-18/climate-action-mayor-comptroller-trustees-first-in-the-nation-goal-divest-from#/0
- **300 fossil fuel free cities** https://gofossilfree.org/divestment/commitments/

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ESG POLICIES FROM SOME CITIES

- **Boston** https://www.boston.gov/news/mayor-walsh-commits-sustainable-activist-investment-policy-city-boston
- **Vancouver** https://council.vancouver.ca/20160503/documents/a8.pdf
- **San Francisco** https://sftreasurer.org/sites/default/files/Investment%20Policy%20September%202017%20Final.pdf
- **Seattle** https://www.seattle.gov/Documents/Departments/Retirement/Board/Governance%20docs/ESGPolicyJune2016.pdf
- **Sydney** https://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0011/136496/Investment-Policy-October-2018.pdf
- **New York** https://www1.nyc.gov/office-of-the-mayor/news/022-18/climate-action-mayor-comptroller-trustees-first-in-the-nation-goal-divest-from#/0
- **Other fossil fuel free cities** https://gofossilfree.org/divestment/commitments/

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RECOMMENDATIONS TO IMPROVE THE POLICY

CITY OF TORONTO INVESTMENT POLICY

1. INVESTMENT BELIEFS

- Reference the **Paris Agreement**, for example
- Consideration of environmental, social and governance factors, is expected to improve the risk/return profile of portfolios in the coming decades (and conversely, not considering these risk factors may impair performance)
- Toronto will prriroritize investing in companies and vehicles who businesses support and are making an active contribution to limiting global warming to under 1.5 degrees
- Toronto recognizes the increasing financial risks from climate change and will seek to reduce its exposure to these risks by limiting or fully restricting investments in companies that will be potentially negatively affected by climate policy and regulations (in particular coal, oil and fossil fuel companies).

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2. ESG FACTORS

- **Guidance on incorporating ESG factors in manager selection, appointment and monitoring**
  - UNPRI guide on aligning expectations https://www.unpri.org/download?ac=1614
  - UNPRI guide on investing in the low carbon economy without sacrificing risk adjusted returns https://www.unpri.org/download?ac=5140
  - UNPRI Guide for Investment Policy https://www.unpri.org/download?ac=1605
  - ESG Policy development https://d3n8a8pro7vhmx.cloudfront.net/intentionalendowments/pages/1586/attachments/original/1497894400/Considerations_for_ESG_Policy_Development.pdf?1497894400

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2. ESG FACTORS cont.

Section 6.6 amendments:

- *The Investment Board should incorporate and prioritize ESG factors into its investment decision-making through its due diligence processes when choosing Investment Managers and in determining the assets and vehicles to invest City funds. As such, when a prospective investment manager is assessed, or an existing Investment Manager is reviewed, the Investment Board will consider the Investment Manager's ESG policies, recognizing the approach to ESG integration in the investment process will vary… The Investment Board will monitor the evolution of ESG factors and best practices and will reconsider its approach and expectations as and when appropriate…"*

- Explicit priority on investments that provide a local benefit to Toronto.

- Constraints or requirements for each asset class. For example Mercer: believes that ESG factors can be applied across asset classes including listed equities (active and passive), sovereign and corporate bonds, property and unlisted assets; acknowledge that the degree of relevance, or materiality, varies across asset classes, as does the current state of integration by strategies within asset classes; sustainability-themed strategies are more prevalent in equities and real assets.

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3. COMMIT TO TCFD RECOMMENDATIONS

- Discussion of how climate risk is governed and addressed
- Reporting of carbon footprint and other targets or metrics which may be available. https://www.fsb-tcfd.org/supporters-landing/
- Indicate a preference for investment managers that have stated their support for TCFD and are adopting TCFD disclosures in their reporting (or commit to do so by 2019, given its still an evolving field).

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4. PROHIBITED INVESTMENTS

- Section 3.2 e) include investing in fossil fuel companies (to be defined elsewhere in the policy)

5. REPORT TO COUNCIL

- Section 7.2 **-** Requirement to report on
  - ESG and local benefit performance of the Fund,
  - proactive work to reduce portfolio risk and increase portfolio alignment on ESG and local objectives.

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THANK YOU

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Photo credit: Places to Grow Gallery, Ontario Ministry of Municipal Affairs